

September 13, 2019

Bengaluru Metropolitan Transport Corporation: Rating downgraded to [ICRA]D

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loans	335.00	335.00	[ICRA]D; downgraded from [ICRA]B (Stable)
Proposed Term Loans	965.00	965.00	[ICRA]D; downgraded from [ICRA]B (Stable)

*Instrument details are provided in Annexure-1

Rationale

The rating downgrade reflects the delays and irregularities in servicing of long-term loans, based on the feedback received from the banker. BMTC's financial performance remained weak in FY2019, characterised by continued losses and the consequent strained liquidity position and inadequate coverage indicators. The stressed cash flows resulted in delays in debt servicing, despite the support received from the Government of Karnataka (GoK). The losses from operations over the past few years were primarily owing to the lack of tariff revision amidst rising operating costs and reduced passenger load factor. The cash losses incurred increased the BMTC's dependence on grants from the GoK and external borrowings for funding its fleet expansion programme and rising operating expenses. The ongoing capital expenditure towards strengthening its fleet is likely to limit the improvement in the leverage ratios and liquidity position of the BMTC in FY2020. The timely receipt of funding support from the GoK and the turnaround in operational performance, with the addition of new buses and schedules, will be critical for an improvement in its overall financial profile and would remain the key rating sensitivities, going forward.

Key rating drivers

Credit strengths

Strategic importance to the GoK and financial flexibility derived being a state-owned entity – The BMTC is wholly owned by the GoK and is strategically important to the state government, with the corporation playing a critical role in providing transport services in the capital city of the state. The BMTC receives support from the GoK in the form of revenue and capital grants to meet its funding requirements.

Credit challenges

Delays in debt servicing – There has been a delay in debt servicing by BMTC in the payment of its long-term loans.

Continued weak operating performance – The BMTC's operating performance continued to remain weak in FY2019, primarily owing to the firm fuel costs against the lack of fare revision and rising employee expenses. Further, the number of profit-making schedules reduced sharply during FY2019, resulting in an operating loss of Rs. 4.32 per km during FY2019 as compared to an operating loss of Rs. 1.06 per km during FY2018.

Modest financial profile – BMTC’s capitalisation ratios deteriorated in FY2019, owing to the high losses incurred and the ongoing debt-funded expansion programme. Further, lack of adequate support from the GoK to meet its operating and capital expenditure requirements resulted in its increasing dependence on external funding to support its cash flows. The expected losses in FY2020, coupled with the scheduled expenditure towards fleet addition is likely to further increase its debt levels and limit improvement in capitalisation ratios in the near term.

High repayment obligations in the near term - The BMTC has significantly high repayment obligations for the next couple of years, which will continue to impact its liquidity position. Although ICRA notes that some of the loans sourced from the Karnataka Urban Infrastructure Development Authority, would be repaid by the Government of Karnataka.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Liquidity position: Poor

The company has substantial annual debt repayments amounting to Rs. 224.42 crore, during FY2020 and FY2021. Its liquidity position remains poor as reflected in its delays in the repayment of long-term loans during the current fiscal.

Rating Sensitivities

Positive triggers – Regularisation of debt servicing on a sustained basis (more than three months)

Negative triggers – Not applicable

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Passenger Road Transport Entities
Parent/Group Support	Not Applicable
Consolidation / Standalone	Standalone

About the company:

BMTC was established in August 1997 under the provisions of the Road Transport Corporation (RTC) Act, 1950, to provide passenger road transport services in and around the capital of Karnataka, Bengaluru. The BMTC was carved out from the Karnataka State Road Transport Corporation (KSRTC) by combining two divisions of the Bangalore Transport Service (BTS), effective from August 1997. The operational jurisdiction of the BMTC extends to around 25 km across all directions from the Bruhut Bengaluru Mahanagara Palike (BBMP) boundaries. As on March 31, 2019, with a fleet strength of 6521, the BMTC is one of the largest among the urban state road transport undertakings (SRTUs) in the country. It operates close to 6,200 schedules daily through 45 depots, two central workshops and 33,878 personnel.

Key financial indicators

Fiscal	FY2017	FY2018	FY2019
	(Audited)	(Audited)	(Provisional)
Operating Income (Rs. crore)	2,106.1	2227.0	2293.3
PAT (Rs. crore)	-260.9	-217.6	-349.5
OPBDIT/ OI (%)	-4.0%	-2.0%	-7.8%
RoCE (%)	-21.5%	-17.5%	-36.0%
Total Debt/ TNW (times)	1.5	6.5	12.1
Total Debt/ OPBDIT (times)	-7.3	-23.2	-4.5
Interest Coverage (times)	-1.6	-0.9	-6.7

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated	Amount Outstanding*	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	
					September 13, 2019	July 02, 2018	November 15, 2017	July 05, 2017
1	Term Loan I	Long-term	160.00	96.3	[ICRA]D	[ICRA]B (Stable)	[ICRA]B (Stable) 'ISSUER NOT CO-OPERATING'	[ICRA]B (Stable)
2	Term Loan II	Long-term	175.00	157.7	[ICRA]D	[ICRA]B (Stable)	-	-
3	Term Loans Proposed	Long-term	965.0	NA	[ICRA]D	[ICRA]B (Stable)	[ICRA]B (Stable) 'ISSUER NOT CO-OPERATING'	[ICRA]B (Stable)

*outstanding as on Mar 31, 2019

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans I	FY2016	-	FY2023	160.00	[ICRA]D
NA	Term Loan II	FY2018	-	FY2025	175.00	[ICRA]D
NA	Term Loan proposed	-	-	-	965.00	[ICRA]D

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